Peter J. Richardson ISB No. 3195
Gregory M. Adams ISB No. 7454
Richardson Adams, PLLC
515 N. 27th Street
P.O. Box 7218
Boise, Idaho 83702
Telephone: (208) 938-7901 Tel
Fax: (208) 938-7904 Fax
peter@richardsonadams.com
Attorneys for Clearwater Paper Corporation

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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION'S APPLICATION TO ADJUST ITS ANNUAL POWER COST ADJUSTMENT (PCA) RATES	CASE NO. AUV-E-14-06 COMMENTS OF CLEARWATER PAPER CORPORATION

COMES NOW, Clearwater Paper Corporation, ("Clearwater") and pursuant to Rule 203 of the Rules of Procedure of the Idaho Public Utilities Commission (the "Commission") and the Commission's Notice of Application and Notice of Modified Procedure, Order No. 33095, issued on August 15, 2014 and provides the following Comments.

Introduction

Avista Corporation ("Avista" or the "Company') seeks approval for an increase of $12.4 million (4.99% for overall rates) increase in Schedule 66 (PCA) revenue. The Company proposes $0.00252 per kWh surcharge to take effect October 1, 2014 for deferred power costs from July 1, 2013, through June 30, 2014. The current Schedule 66 charge is -$0.00152, or a rebate to customers of $4.7 million. The $12.4 million increase in revenue requested is derived from $7.7 million in increased power supply costs plus the expiring rebate.

Causes of Power Supply Increases

Two of the larger causes for power supply cost increases are; 1) Clearwater Paper's new partial self-generation contract, and 2) the forced outage of Colstrip Unit 4 (CU4). The dollar impact of these two cost increases total approximately $6.4 million, with the Colstrip Unit 4 outage contributing nearly two thirds of that total. Clearwater recommends disallowance of the Colstrip amount pending further review and a prudence examination. In addition, Clearwater recommends a reallocation of a portion of the costs allocated to it in order to achieve a more equitable rate spread among Avista's ratepayers.

Clearwater Cogeneration Contract

Avista and Clearwater filed a Joint Petition in April, 2013, seeking approval of a new Electric Service Agreement (ESA) to replace the existing contract that was set to expire on June 30, 2013. Clearwater owns and operates a 132 MW cogeneration facility. Under the new agreement, Clearwater will self-generate approximately half its load and purchase the other half from Avista under Company's "Extra Large General Service To Clearwater Paper's Facility" Schedule 25P. That rate will also include any applicable rate adjustments. The Commission approved the new five year EAS on June 28, 2013, in Order No. 32841.

The new Avista/Clearwater ESA adds $2.3 million to Avista's proposed 2013/2014 PCA. According to the Company, this increase is caused because:

> The higher expense related to Clearwater Paper is a result of the change in the contract between Avista and Clearwater Paper whereby Clearwater now generates into its own load as opposed to selling their full generation output to Avista at a rate of $42.92/MWh. The PCA authorized base includes a purchase by Avista of Clearwater generation and Clearwater purchasing an equivalent amount of power at retail rates. Given that the power purchase rate was lower than retail rates, when the Clearwater purchase contract ended on June 30, 2013 and Clearwater chose to use its generation to reduce purchases from Avista, the result was an increase in PCA surcharge deferrals. [Direct Testimony of William Johnson, AVU-E-14-06, p. 3.]

Clearwater Paper comprises approximately 15% of Avista's Idaho load on a per kWh basis. Therefore, any change in how the Company provides power to Clearwater can have a meaningful impact not only on Clearwater but also other Idaho jurisdiction customer classes.

The Commission Staff reviewed the Application for the new ESA and analyzed the potential impact it could have on other customer classes in Avista's Idaho service territory. Using the cost of service study approved by the Commission in Avista's last general rate case (AVU-E-12-08) Staff determined:

> Base rates are expected to change the next time they are established due to the changes in the cost of serving Clearwater and the change in the Clearwater load. The cost of service study will redistribute costs to the various customer classes, including Clearwater Paper. Attachment A[1] to these comments shows an estimate of the redistribution. Attachment A has three parts. The top third shows cost of service results under the current ESA. The middle third shows expected cost of service results under the proposed ESA with Clearwater generating into its own load. The bottom third shows the difference between the two cost of service studies. The bottom third of Attachment A shows an increase to the Idaho jurisdiction of approximately $1.9 million with approximately $1.4 million being assigned to Clearwater Schedule 25P. Even with this change, current Clearwater rates remain above cost of service. All schedules except Schedules 11 and 21 move closer

[1] Attachment A from Staff's Comments in Docket AVU_E-12-13 are attached for reference purposes.

to cost of service as a result of the proposed contract change. [Idaho Commission Staff Comments, AVU-E-13-02, p. 3.]

It turns out that Staff's estimate of the overall impact ($1.9 million) resulting from the change in the ESA between Avista and Clearwater is close ($2.3 million) to what the Company actually filed in the present PCA docket. Hence it can be assumed Staff's projected cost responsibility among the customer classes is a reasonable approximation of what should occur when the Commission issues its final Order in the Company's next general rate case.

However, on July 26, 2014, the Idaho Commission issued a Notice of Proposed Settlement (Order No. 33080, AVU-E-14-05), which all parties signed, regarding Avista's rate freeze plan. Therefore, it is unlikely a rate case will be filed by the Company in the near future that would cause the Clearwater ESA to be included in base rates. According to Staff's cost of service analysis in the ESA docket, Clearwater Paper's "Rate of Return Ratio" (ROR) continues to be above one, at 1.10, down from the current ROR Ratio of 1.20 [Attachment A Commission Staff Comments, AVU-E-13-02]. This means that Clearwater continues to subsidize other classes of Idaho customers. It is inequitable that Clearwater should continue to subsidize other rate classes until the Company decides to file for a general rate case at some unknown time in the future.

Clearwater recommends the Commission adopt the difference in Staff's estimate between the current cost of service allocation, and what would occur if the new ESA was included in base rates. This difference is $500,000, or the $1.9 million overall shift less the $1.4 million that would be assigned to Clearwater. Clearwater's recommends this reduction in its PCA rates be spread to the other PCA rate classes either on a kWh basis or on a per bill basis.

Colstrip Unit 4 Forced Outage

The question of PCA recovery of extraordinary power supply expenses caused by a forced outage of a coal unit has been addressed by the Commission the past. It concluded that a PCA type of proceeding is not the appropriate forum for examining causes and deciding on ratemaking treatment for such events. Therefore Clearwater recommends the extraordinary costs associated with the Colstrip outage be removed from Avista's PCA for a later determination of their reasonableness and prudence.

In Idaho Power Docket No. IPC-E-04-9 the PUC's Staff addressed Idaho Power's attempt to flow extraordinary expenses it incurred due to an unexpected outage at its Valmy coal fired plant. Staff asserted:

> It is Staff's position that the PCA was established to adjust for changes in water conditions and energy market prices. In other words, weather related conditions and power supply costs beyond the control of the Company. It was not designed to automatically flow through costs associated with this type of event. Absent the PCA, theses costs would not even be considered without special application from the Company. Presumably, recovery from customers, if allowed at all, would only occur after thorough review.[2]

Certainly the same logic applies here. The PCA is not the appropriate place to park these extraordinary charges. Indeed, the Commission, in its order in Docket No. IPC-E-09-4 agreed with the Staff's reasoning:

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[2] Staff Comments at p. 8 IPC-E-04-9.

> We also believe the issue of replacement power resulting from the Valmy plant outage…warrants further examination. Given the expedited nature of the annual PCA cases, there is not sufficient time to adequately examine the issue in this proceeding. We encourage the parties to reach a settlement that is fair to both the Company and its ratepayers. If necessary, any adjustment in power cost recovery resulting from the Valmy outage will be carried over to next year's PCA case. …[W]e specifically reserve the recovery of the replacement [3]power due to the Valmy outage until the parties have completed their examination.

In addition, the current environment involving coal power generation is increasingly uncertain – which was not as true in 2004. The risk associated with future regulation of carbon emissions should be part of determining the extent that coal generating units should remain part of a utilities resource portfolio. The Idaho Commission recognized the risk to utilities and their rate payers of such potential future regulations in Case No. IPC-E-13-16 which involved guaranteeing rate base treatment for pollution control devices for Bridger Units 3 and 4.

> However, the Commission also acknowledged the uncertain future of coal-fired generation and admonished the Company to stay abreast of environmental regulations that could negatively impact Idaho Power's investment in Bridger.

And

> The Commission explained that future environmental regulations adopted as the Bridger investment proceeds might make the upgrades uneconomic. Idaho Power was put on notice that it needs to remain vigilant about whether proceeding with the upgrades to Units 3 and 4 is the best alternative for customers and the Company.
>
> To clarify and reiterate, we find that the present circumstances require the proposed Bridger upgrades in order for Idaho Power to be able to reliably and reasonably serve the Company's customers. The Commission's primary concern is

[3] Order No. 29506 at p. 7.

> the possibility of more stringent environmental regulations that could make the Bridger upgrades, and thus the Company's investment, uneconomic. [Idaho Public Utilities Commission, Order No. 32996, IPC-E-13-16, p. 2,3.]

Clearwater believes Avista's extraordinary power supply costs caused by Colstrip outage should be given the same treatment as Idaho Power's extraordinary power supply costs caused by the Valmy outage.

Recommendations

Based on the cost of service results relied on by the Commission in approving Clearwater Paper's special contract with Avista, Clearwater respectfully requests the Commission issue its order allocating $500,000 of Clearwater's PCA costs to the other rate classes.

Based on established Commission precedent on treatment of coal-unit-outage-caused extraordinary power supply expenses, Clearwater also respectfully request that the extraordinary power supply expenses associated with the Colstrip outage be removed from the PCA and that they be considered in a separate proceed.

RESPECTFULLY SUBMITTED THIS 15th DAY OF SEPTEMBER, 2014.

Richardson Adams, LLP

By ______________________

Peter J. Richardson, Counsel for
Clearwater Paper Corporation

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 15th day of September, 2014, a true and correct copy of the within and foregoing COMMENTS OF CLEARWATER PAPER in Docket No. AVU-E-14-06 was served by the method indicated to:

David J. Meyer [electronic delivery]
Vice President and Chief Counsel for
Regulatory and Governmental Affairs
Avista Corporation
1411 East Mission
Spokane, WA 99220
david.meyer@avistacorp.com

Kelly O. Norwood [electronic delivery]
Vice President
State and Federal Regulation
Avista Corporation
1411 East Mission
Spokane, WA 99220
kelly.norwood@avistacorp.com

Jean Jewell [hand delivery]
Commission Secretary
Idaho Public Utilities Commission
472 West Washington
Boise, Idaho 83702

Dean J. Miller [electronic delivery]
McDEVITT &MILLER LLP
P.O. BOX 2564-83701
Boise, Idaho 83702
joe@mcdevitt-miller.com
Larry A. Crowley [electronic delivery]
The Energy Strategies Institute, Inc.
5549 South Cliffsedge Avenue
Boise, Idaho 83716
crowleyla@aol.com

Nina M Curtis

Nina Curtis
Administrative Assistant

EXHIBIT A
TO
CLEARWATER PAPER'S COMMENTS
AVU-14-06

Key Cost of Service Indications Regarding Clearwater Paper Scenarios

AVU-E-12-08 As Filed (Cost at Present Rates)

$000s	Sch 1	Sch 11/12	Sch 21/22	Sch 25	Sch 25P	Sch 31/32	Lighting	Total Idaho
Revenue	99,497	32,432	51,400	16,036	41,091	4,859	3,405	248,720
Cost	106,349	28,933	49,178	16,155	39,410	4,949	3,747	248,720
Target Change	6,852	(3,499)	(2,222)	119	(1,681)	90	342	(0)
Revenue to Cost Ratio	0.94	1.12	1.05	0.99	1.04	0.98	0.91	1.00
Rate Base	284,777	78,205	136,041	35,478	77,293	14,817	12,418	639,030
Net Income	16,357	8,026	11,423	2,521	6,765	1,026	685	46,803
ROR	5.74%	10.26%	8.40%	7.10%	8.75%	6.92%	5.51%	7.32%
Return Ratio	0.78	1.40	1.15	0.97	1.20	0.95	0.75	1.00

Clearwater Scenario — Customer Generates into their own load

$000s	Sch 1	Sch 11/12	Sch 21/22	Sch 25	Sch 25P	Sch 31/32	Lighting	Total Idaho
Revenue	99,497	32,432	51,400	16,036	20,048	4,859	3,405	227,677
Cost (At Current Return As Filed)	106,494	29,009	49,359	16,238	19,718	4,970	3,755	229,543
Target Change	6,997	(3,423)	(2,041)	202	(330)	111	350	1,866
Revenue to Cost Ratio	0.93	1.12	1.04	0.99	1.02	0.98	0.91	0.99
Rate Base	301,244	82,610	144,680	39,164	43,302	15,480	12,551	639,030
Net Income	17,479	8,307	11,947	2,738	3,391	1,062	690	45,614
ROR	5.80%	10.06%	8.26%	6.99%	7.83%	6.86%	5.50%	7.14%
Return Ratio	0.81	1.41	1.16	0.98	1.10	0.96	0.77	1.00

Change — Self Gen - As Filed

$000s	Sch 1	Sch 11/12	Sch 21/22	Sch 25	Sch 25P	Sch 31/32	Lighting	Total Idaho
Revenue	-	-	-	-	(21,043)	-	-	(21,043)
Cost	145	76	182	83	(19,691)	21	7	(19,177)
Target Change	145	76	182	83	1,352	21	7	1,866
Revenue to Cost Ratio	0.00	0.00	0.00	0.01	0.03	0.00	0.00	0.01
Rate Base	16,467	4,404	8,639	3,685	(33,990)	663	132	-
Net Income	1,122	281	524	218	(3,375)	36	5	(1,189)
ROR	0.06%	-0.21%	-0.14%	-0.11%	-0.92%	-0.07%	-0.02%	-0.19%
Return Ratio	0.03	0.01	0.01	0.01	(0.10)	0.02	0.02	-

ATTACHMENT A
CASE NO. AVU-E-13-02
K. HESSING, STAFF
06/14/13